

Message Text

UNCLASSIFIED

PAGE 01 SINGAP 01004 01 OF 02 030709Z

ACTION EA-12

INFO OCT-01 ISO-00 MMO-04 SP-02 USIA-15 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 L-03 H-02 PA-02 AGRE-00 /109 W
-----099980 030720Z /10

R 030300Z MAR 78

FM AMEMBASSY SINGAPORE

TO SECSTATE WASHDC 9768

INFO AMCONSUL HONG KONG

AMEMBASSY JAKARTA

AMEMBASSY KUALA LUMPUR

UNCLAS SECTION 1 OF 2 SINGAPORE 1004

HONG KONG FOR REGIONAL TREASURY ATTACHE

E.O. 11652: N/A

TAGS: ECON, SN

SUBJECT: SINGAPORE ECONOMY: 1977 PERFORMANCE AND 1978

GOVERNMENT BUDGET

1. SUMMARY: SINGAPORE ECONOMY CONTINUED PERFORMING WELL
IN 1977 ACCORDING TO GOS ECONOMIC SURVEY RELEASED FEB. 24.
INFLATION AND UNEMPLOYMENT CONTINUED VERY LOW AND REAL GDP
INCREASED 7.8 PERCENT. 1978 BUDGET PRESENTED BY FINANCE
MINISTER TO PARLIAMENT FEB. 27 CALLS FOR MODERATE INCOME
TAX RELIEF AND NEW INCENTIVES FOR INVESTORS BUT PROPOSES
NEW TAXES ON AUTOMOBILES AND ENTERTAINMENT. END SUMMARY.

2. THE 1978 BUDGET WILL BE REPORTED IN GREATER DETAIL
LATER WITH THE SUBMISSION CERP 0200 DUE APRIL 1. ALSO,
SINGAPORE'S ECONOMIC PERFORMANCE IN 1977 WILL BE MORE
FULLY DISCUSSED IN CERP 0004, ECONOMIC TRENDS REPORT,
ALSO DUE APRIL 1. THIS CABLE WILL COVER THE HIGHLIGHTS
OF BOTH REPORTS.

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 SINGAP 01004 01 OF 02 030709Z

3. ECONOMIC PERFORMANCE: IN THE INTRODUCTION TO HIS
BUDGET SPEECH, FINANCE MINISTER HON SUI SEN NOTED THAT
THE SLOWDOWN IN WORLD ECONOMIC RECOVERY POSED PROBLEMS
FOR SINGAPORE IN 1977. THE SINGAPORE ECONOMY, HOW-
EVER, GREW BY 7.8 PERCENT IN REAL TERMS, UP FROM
THE 7 PERCENT GROWTH RATE IN 1976-77. AT CURRENT

PRICES GROWTH WAS 10 PERCENT; THE GDP DEFLATOR ROSE BY 2 PERCENT COMPARED WITH 1.8 PERCENT IN 1976. PRIMARILY BECAUSE OF HIGH FOOD PRICES, THE CONSUMER PRICE INDEX ROSE 2.3 PERCENT COMPARED WITH A DROP OF 1.9 PERCENT IN 1976. ECONOMIC GROWTH WAS LED MAINLY BY INCREASES IN COMMERCE AND TRANSPORTATION WHICH ACCOUNTED FOR 64 PERCENT OF THE INCREASE IN GDP. UNEMPLOYMENT FELL TO 3.9 PERCENT DURING THE YEAR.

4. SINGAPORE'S EXTERNAL TRADE SPURTED BY 18 PERCENT AND THE TRADE DEFICIT NARROWED BY \$700 MILLION TO \$5.4 BILLION (US\$1 EQUALS S\$2.30). MANUFACTURING OUTPUT EXPANDED BY 15 PERCENT AND VALUE ADDED BY INDUSTRIES IN SINGAPORE GREW BY 8 PERCENT IN REAL TERMS.

5. HON EMPHASIZED THAT SINGAPORE MUST CONTINUE TO SEEK NEW INVESTMENT IN HIGH TECHNOLOGY INDUSTRIES, ESPECIALLY IN THE FACE OF RISING PROTECTIONIST TENDENCIES ABROAD.

6. IN ORDER TO ATTRACT MORE INDUSTRY TO SINGAPORE, HON PROPOSED A NEW INVESTMENT CREDIT SCHEME WHICH WOULD ALLOW COMPANIES TO OFFSET INVESTMENT IN NEW FIXED EQUIPMENT AGAINST PROFITS FOR THE YEAR IN WHICH THE NEW CAPITAL EXPENDITURE IS INCURRED. THE CREDIT WILL BE CARRIED OVER TO FUTURE YEARS
UNCLASSIFIED

UNCLASSIFIED

PAGE 03 SINGAP 01004 01 OF 02 030709Z

IF NOT EXHAUSTED IMMEDIATELY AND WILL BE 10-50 PERCENT OF SUCH CAPITAL EXPENDITURE. PROFITS EXEMPTED FROM TAX CAN THUS BE DISTRIBUTED TO SHAREHOLDERS AS TAX EXEMPTED DIVIDENDS. THE SCHEME WILL COMPLEMENT THE EXISTING PIONEER STATUS AND EXPORT INCENTIVE SCHEMES BY BENEFITING PROJECTS WHICH ARE UNPROFITABLE OR marginally PROFITABLE IN THE INITIAL YEARS OF OPERATION. IN ADDITION, THE GOVERNMENT WILL OFFER A 20 PERCENT TAX RATE FOR OVERSEAS-ORIENTED SALES AND SERVICE COMPANIES, APPROVED WAREHOUSING AND RELATED ACTIVITIES. OFFSHORE TRADING, CONSULTANCY AND OTHER SERVICES WHICH DEAL PREDOMINANTLY WITH OFFSHORE BUSINESS AND NEW AREAS OF ACTIVITY WILL BE GRANTED THE CONCESSIONAL RATE FOR FIVE YEARS. OPERATIONAL EXPENDITURES FOR PERMANENT TRADING OFFICES ABROAD WILL ENJOY A DOUBLE DEDUCTION FROM INCOME. INDUSTRIAL BUILDINGS MAY BE DEPRECIATED OVER 25 YEARS VICE THE PRESENT 45 YEARS FOR TAX PURPOSES. THE INITIAL ALLOWANCE FOR DEPRECIATION WILL INCREASE FROM 10 PERCENT TO 25 PERCENT.

7. DIVIDEND DISTRIBUTIONS OUT OF OFFSHORE PROFITS WILL BE TAX EXEMPT. AT PRESENT, FINANCIAL INSTITUTIONS OPERATING ASIAN CURRENCY UNITS (ACU) NOW HAVE A CONCESSIONAL TAX RATE OF 10 PERCENT ON OFFSHORE PROFITS. THAT RATE, HOWEVER, DOES NOT PRESENTLY EXTEND TO DIVIDEND DISTRIBUTIONS MADE BY SUCH AN INSTITUTION OUT OF OFFSHORE PROFITS. WHEN DIVIDENDS ARE DISTRIBUTED, THEREFORE, THE INSTITUTION IMMEDIATELY INCURS A FURTHER 30 PERCENT TAX CHARGE ON DIVIDEND DISTRIBUTION. HON SAID THAT TO FURTHER PROMOTE THE DEVELOPMENT OF THE ASIA DOLLAR MARKET, HE WILL "FOLLOW THROUGH" BY EXEMPTING DISTRIBUTED DIVIDENDS FROM FURTHER TAXES BEYOND THE INITIAL 10 PERCENT. THIS "FOLLOW

UNCLASSIFIED

UNCLASSIFIED

PAGE 04 SINGAP 01004 01 OF 02 030709Z

THROUGH" CONCESSIONS WILL ALSO APPLY TO DIVIDENDS PAID OUT OF OFFSHORE INSURANCE PROFITS OF INSURANCE COMPANIES.

8. PERSONAL INCOME TAXES: INTRODUCING REDUCTIONS IN PERSONAL INCOME TAXES FOR MOST SINGAPOREANS, MANUAL SKILLS OR INTELLECTUAL DISCIPLINES AND AT ALL LEVELS. IN OUR QUEST FOR A JUST AND EQUAL SOCIETY, WE MUST NOT FORGET THAT THE THRUST FOR DEVELOPMENT AND PROGRESS SPRINGS PRINCIPALLY FROM THE STRONG HUMAN URGE FOR RECOGNITION OF ACHIEVEMENT AND THE REWARDS THAT GO WITH HARD WORK AND SUCCESS." THE PERSONAL TAX RELIEF PROPOSED BY HON WILL APPLY TO INCOMES UP TO S\$20,000 AND TO INCOMES FROM S\$35,000 TO S\$400,000. MARGINAL TAX RATES IN THE S\$20,000 TO S\$35,000 RANGE REMAIN UNCHANGED AS DO RATES FOR INDIVIDUALS EARNING ABOVE S\$400,000. THE TAX RELIEF IS MODEST IN MOST BRACKETS, A MAXIMUM OF 5 PERCENT REDUCTION EXCEPT IN THE S\$100,000 TO S\$200,000 BRACKET WHERE THE REDUCTION IS 10 PERCENT. THE REVENUE LOSS IN THE FIRST YEAR OF THESE REDUCTIONS IS ESTIMATED AT S\$53.9 MILLION.

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 SINGAP 01004 02 OF 02 030717Z

ACTION EA-12

INFO OCT-01 ISO-00 MMO-04 SP-02 USIA-15 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 L-03 H-02 PA-02 AGRE-00 /109 W
-----100074 030719Z /11

R 030300Z MAR 78

FM AMEMBASSY SINGAPORE
TO SECSTATE WASHDC 9769
INFO AMCONSUL HONG KONG
AMEMBASSY JAKARTA
AMEMBASSY KUALA LUMPUR

UNCLAS SECTION 2 OF 2 SINGAPORE 1004

9. TO COMPENSATE FOR THE REVENUE LOSS IN PERSONAL INCOME TAXES, THE GOVERNMENT PLANS TO INCREASE THE TAXES ON AUTOMOBILES FROM 100 PERCENT TO 125 PERCENT. ENTERTAINMENT DUTY WILL BE SUBSTANTIALLY INCREASED (ALTHOUGH EXPECTED REVENUE WILL BE MODEST); DRIVING LICENSE FEES ARE DOUBLED AND TELEPHONE TAX IS RAISED BY 5 PERCENT. THERE ARE ALSO INCREASED IN LICENSE FEES FOR COLOR TELEVISION SETS, AND THE AIRPORT TAX FOR SINGAPORE FLIGHTS TO MALAYSIA AND BRUNEI IS DOUBLED. TOTAL YIELD FROM ALL NEW EXPENDITURE TAXES IS ESTIMATED AT \$41.8 MILLION IN THE FIRST YEAR AND THE NET LOSS IN REVENUE FROM THE TAX CUTS AND HIKES WILL BE \$12.1 MILLION.

10. THE BUDGET CALLS FOR TOTAL ESTIMATED EXPENDITURES IN FY 78 OF \$5.756 BILLION. ABOUT HALF THE BUDGET IS ALLOTTED TO THE DEVELOPMENT EXPENDITURES. AS HAS BEEN THE CASE IN RECENT YEARS, THE GOVERNMENT ESTIMATES THAT THE MAIN EXPENDITURES, I.E., THE OPERATING BUDGET, WILL SHOW A SURPLUS OF \$666 MILLION. THIS SURPLUS WILL BE TRANSFERRED TO THE UNCLASSIFIED

UNCLASSIFIED

PAGE 02 SINGAP 01004 02 OF 02 030717Z

DEVELOPMENT EXPENDITURES. THE BUDGET OVERALL WILL SHOW AN ESTIMATED DEFICIT OF \$1.428 BILLION.

11. EMBASSY COMMENT: WHILE WE HAVE NOT SEEN THE ACTUAL BUDGET DOCUMENT YET, OUR FIRST IMPRESSION IS, TO QUOTE A PRESS COMMENT, THAT THE GOVERNMENT IS "GIVING WITH ONE HAND AND TAKING AWAY WITH OTHER." CERTAINLY THE ADDITIONAL TAXES ON ENTERTAINMENT WILL HAVE SOME EFFECT ON REDUCING THE BENEFITS DERIVED FROM THE ONE PERCENT TAX RATE REDUCTION

FOR PERSONS EARNING UP TO S\$5,000 PER YEAR. IN
ADDITION, THE UPPER-MIDDLE CLASS GETS NO TAX
RELIEF AND WILL FEEL THE PINCH WHEN THEIR INCREASED
AFFLUENCE STARTS THEM THINKING ABOUT POSSIBLE CAR
OWNERSHIP. THE GOVERNMENT OBVIOUSLY DOES NOT
WISH THE TAX RELIEF TO ENABLE MORE PERSONS TO AFFORD
CAR OWNERSHIP. (WHICH IT HAS BEEN ATTEMPTING TO
DISCOURAGE IN FAVOR OF PUBLIC TRANSPORTATION IN ITS
DRIVE TO REDUCE TRAFFIC CONGESTION). THERE HAS
BEEN SOME COMMENT THAT THE NEW PATTERN OF A PREFERENCE
FOR CONSUMPTION TAXES MAY BE THE HARBINGER OF A FULL-
SCALE SHIFT TO SOME TYPE OF VALUE-ADDED TAX SYSTEM
FOR SINGAPORE.
HOLDRIDGE

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: UNEMPLOYMENT, BUDGETS, ECONOMIC REPORTS, INVESTORS
Control Number: n/a
Copy: SINGLE
Draft Date: 03 mar 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978SINGAP01004
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780097-0286
Format: TEL
From: SINGAPORE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t197803109/aaaadolf.tel
Line Count: 238
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: d88a24b9-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3123998
Secure: OPEN
Status: NATIVE
Subject: SINGAPORE ECONOMY: 1977 PERFORMANCE AND 1978 GOVERNMENT BUDGET
TAGS: ECON, SN
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/d88a24b9-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014